

January 28, 2022

## Mamta Transformers P Ltd: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based	5	5	[ICRA]B+(Stable) reaffirmed
Short-term/Non-fund Based	6	6	[ICRA]A4 reaffirmed
Short term-Unallocated	5	0	-
Short term-Fund based	0	5	[ICRA]A4 reaffirmed
<b>Total</b>	<b>16</b>	<b>16</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating action factors in the small scale of operations of Mamta Transformers P. Ltd. (MTPL) with an operating income of Rs. 19.64 crore in FY2021. This coupled with intense competition and tender-based nature of business resulted in modest margins and cash accruals in the past. Further, the company is exposed to high customer concentration and geographical concentration risks as the major portion of revenues has been derived from 2-3 customers only, which are based out of Madhya Pradesh and Tamil Nadu. Moreover, the financial profile remained weak, as reflected by weak debt protection metrics and low net worth position of the entity. The ratings also take into consideration MTPL's high working capital intensity, as payments from customers are delayed and the company has a high inventory position. This also resulted in almost full utilisation of fund-based as well as non-fund based limits in the past. Nevertheless, the ratings continue to favourably factor in the extensive experience of promoters in the power and distribution transformer manufacturing industry. The ratings also derive strength from the company's established relationships with customers.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that the company will continue to benefit from its long track record in the transformer manufacturing industry.

### Key rating drivers and their description

#### Credit strengths

**Experienced promoters with established track record in transformer manufacturing industry** – MTPL was incorporated in 1997 and has a successful operational track record in the power and distribution transformers manufacturing business. The promoters — Mr. Vineet Ora and Mr. R.L. Ora — have more than three decades of experience in the transformer manufacturing industry. Also, MTPL has adequate regional presence in Madhya Pradesh and Tamil Nadu.

**Presence of price escalation clauses** – MTPL's clauses with customers mainly take care of large fluctuations in raw material costs and they can be reimbursed from the major customers. This prevents any large absorption of fluctuations in costs.

#### Credit challenges

**High client and geographical concentration risks** – MTPL has high client concentration risk as most of the revenues in the past came from two state power distribution utilities. However, its long-term association with these entities provides comfort.

Besides, most of the orders executed in the past were concentrated in Madhya Pradesh and Tamil Nadu, resulting in high geographical concentration risk.

**Small scale of operations restricts competitive position** – MTPL is a small-sized manufacturer of power transmission and distribution transformers. The company reported an operating income (OI) of ~Rs. 19.64 crore (audited) in FY2021. Its existing scale of operations remains smaller than the big-sized players in the transformers manufacturing industry. This constrains its ability to benefit from the economies of scale and weighs on its competitive position vis-à-vis the large-sized entities. Further, a small scale exposes the company to the risk of any business downturn.

**Moderate financial profile** – The company’s financial profile remains moderate, characterised by high utilisation of working capital limits, moderate gearing, profitability indicators and debt coverage indicators. Its operations continue to be working capital intensive, resulting in a stretched liquidity profile, as reflected in the consistently high utilisation of sanctioned limits.

**Intense competition** – There is an overcapacity in the domestic fragmented transformer industry with the installed capacity exceeding the required level, leading to stiff competition and limiting the pricing flexibility of most players in this segment, thereby putting pressure on revenues and margins.

**High working capital intensity** – The company’s working capital cycle remains high due to an elongated receivable cycle due to slow payment realisation from state discoms. State power distribution utilities have longer payment periods due to varying inspection, approval timelines and a moderate financial health. Also, the company has a long operating cycle and needs to maintain a high inventory to meet orders in a timely manner, which further results in a high working capital intensity. However, it gets a high credit period from its suppliers, which provides comfort to the working capital position to a certain extent. The company’s NWC/OI stood at 34% in FY2021.

## Liquidity position: Stretched

The company’s liquidity position is stretched. The company has low cash and bank balances on its books and the fund-based limit utilisation stood at an average of 97% in the last 15 months ending November 2021.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the company demonstrates a healthy and sustained improvement in its scale and profitability, with improvement in the liquidity position. Moreover, an interest coverage ratio greater than 2.0 times on a sustained basis may trigger a rating upgrade.

**Negative factors** – A significant decline in OI or operating profitability could exert pressure on the company's rating. Further, a stretch in the working capital cycle, leading to a further deterioration in its liquidity profile could exert pressure on the rating.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	None
Consolidation/Standalone	Standalone

## About the company

MTPL, established in 1997, manufactures distribution and power transformers from 10KVA to 5MVA capacity for state power utilities and industrial consumers. MTPL's manufacturing unit is located in Indore, Madhya Pradesh and has been awarded ISO 9001:2008 certificate by TNV Certification Private Limited for quality, infrastructure and the entire manufacturing process. The company's activities are mainly based in Madhya Pradesh (MP) and Tamil Nadu.

### Key financial indicators (audited)

MTPL	FY2020(A)	FY2021(A)
Operating Income (Rs. crore)	12.15	19.64
PAT (Rs. crore)	0.16	0.14
OPBDIT/OI (%)	11.24%	5.13%
PAT/OI (%)	1.33%	0.72%
Total Outside Liabilities/Tangible Net Worth (times)	4.97	5.73
Total Debt/OPBDIT (times)	4.37	6.12
Interest Coverage (times)	1.19	1.23

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

### Status of non-cooperation with previous CRA:

ACUITE has withdrawn B+/A4 rating assigned to the company vide its release dated September 28,2020  
CRISIL has continued the B(Stable0/A4 ratings in 'ISSUER NOT COOPERATION' category as on 26<sup>th</sup> August 2021

### Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31,2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
									January 28,2022
1	Long-term: Fund-based	Long term	5	-	[ICRA]B+(Stable)	[ICRA]B+(Stable)	-	-	
2	Short-term/Non-fund Based	Short Term	6	-	[ICRA]A4	[ICRA]A4	-	-	
3	Short term-Unallocated	Short term	-	-	-	[ICRA]A4	-	-	
4	Short term-Fund based	Short term	5	-	[ICRA]A4	-	-	-	

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term: Fund-based	Simple

Short-term/Non-fund Based	Very simple
Short term-Unallocated	Not applicable
Short term-Fund based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Long-term: Fund-based	-	-	-	5	[ICRA]B+(Stable)
Short-term/Non-fund Based	-	-	-	6	[ICRA]A4
Short term-Fund based	-	-	-	5	[ICRA]A4

*Source: Company*

### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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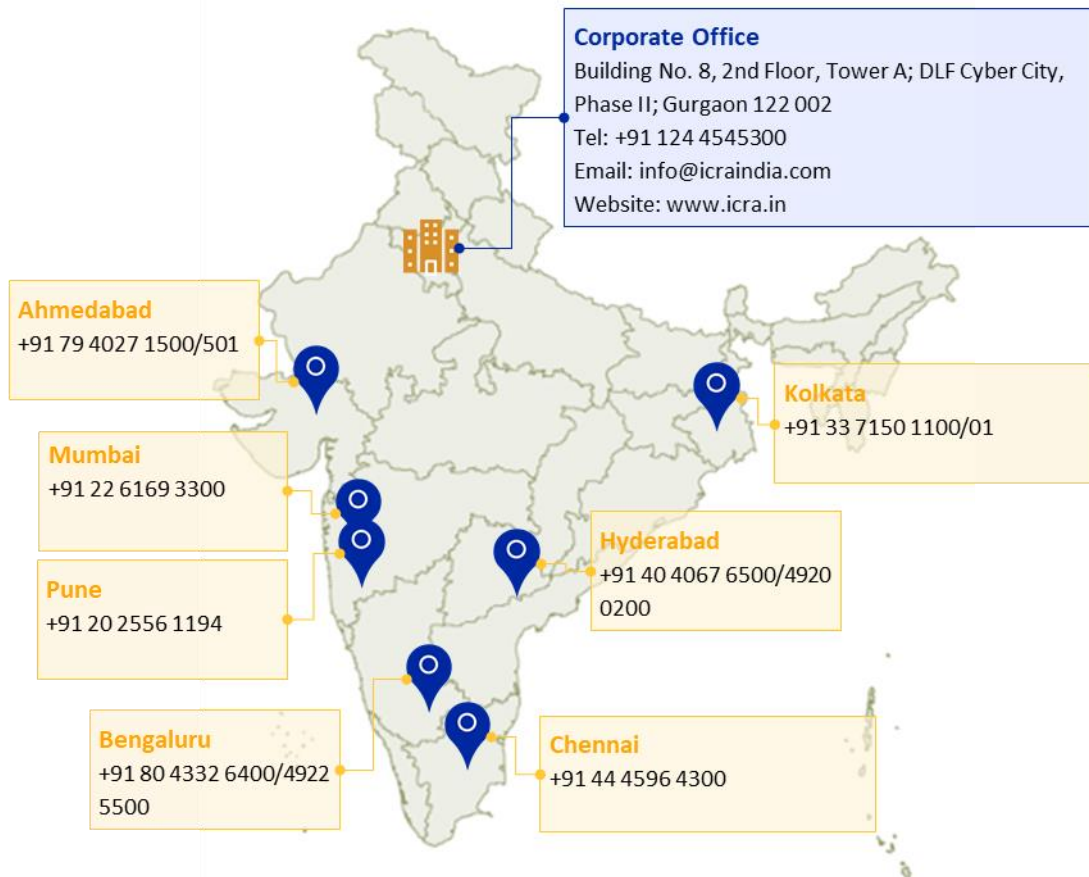
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### Branches



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